

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

ENERGY DIVISION

RESOLUTION E-3892

September 23, 2004

R E S O L U T I O N

Resolution E-3892. San Diego Gas & Electric Company (SDG&E) submits revisions to electric transmission and reliability services rates pursuant to FERC approval of these rates in Docket ER04-1078-000 and ER04-1017-000, respectively.

By SDG&E Advice Letter 1617-E filed on August 20, 2004.

SUMMARY

This Resolution approves the rate changes proposed by SDG&E pursuant to the Federal Regulatory Energy Commission's (FERC) approval of these rates. The rate changes relate to electric transmission reliability services (RS) filed in FERC Docket ER04-1017-000, and Transmission Revenue Balancing Account Adjustment (TRBAA) revenue requirements filed in FERC Docket ER-04-1078-000, and resulting rates.

The California Public Utilities Commission (CPUC or Commission) finds that the Advice Letter filing is in accordance with SDG&E's FERC filing for revisions to its electric RS and TRBAA transmission rates. The Commission finds that the RS and TRBAA revenue requirements and associated rates are just and reasonable, and fully recoverable from SDG&E's applicable customers.

SDG&E Advice Letter 1617-E was not protested.

This resolution approves the advice letter.

BACKGROUND

On July 14, 2004, SDG&E filed an out-of-cycle RS rate filing with the FERC in Docket ER04-1017-000, to be effective from October 1, 2004 through December 31, 2004.

SDG&E has a balancing account, which is used to record and recover costs associated with Reliability Must Run (RMR) plants. Normally, SDG&E changes RMR rates on January 1st of each year. However, SDG&E's RMR costs have increased significantly during this year, and waiting to change the rate on January 1, 2005 would result in a large under-collection that would necessitate a large rate increase on January 1, 2005.

The purpose of the filing is to reduce the growing under-collection in the RMR balancing account, and change the rates on October 1, 2004.

As part of its July 14, 2004 filing with the FERC, SDG&E changed the name of its RMR rates to RS to recognize that in the future these rates will recover Independent System Operator (ISO) RMR costs, ISO out of market costs, and ISO must offer costs as reflected in Amendment 60 to the ISO's tariff filed on May 11, 2004. These costs are for services provided by the ISO that are deemed by the ISO as necessary to maintain reliable electric service in the ISO Control Area and billed by the ISO to the Participating Transmission Owner pursuant to the ISO tariff.

The increase in reliability services costs is due to two reasons:

- First, one of SDG&E's RMR owners has selected a different option allowed under the RMR contract for collecting energy costs, which results in a higher payment by SDG&E to the RMR owner.
- Second, SDG&E will incur additional RMR costs due to the ISO's increased dispatch of one of the RMR units within SDG&E's service territory as compared to the previous year's dispatch.

SDG&E also filed with FERC an out-of-cycle TRBAA rate filing on July 30, 2004, in Docket ER04-1078-000, for rates effective October 1, 2004.

Since its last filing, SDG&E has accumulated approximately an additional \$17 million in its TRBAA account, due to additional credits from the ISO and other

collections. The revised decrease in TRBAA transmission rates will partially offset some of the higher RS rates that will be billed October 1, 2004 through December 31, 2004.

NOTICE

Notice of SDG&E AL 1617-E was made by publication in the Commission's Daily Calendar. SDG&E states that a copy of the Advice Letter was mailed and distributed in accordance with Section III-G of General Order 96-A.

PROTESTS

SDG&E Advice Letter 1617-E was not protested.

DISCUSSION

Energy Division has reviewed SDG&E AL 1617-E. Discussion of the relevant facts that lead to the approval of this advice letter is below.

SDG&E's annual RS revenue requirement has increased from \$106.6 million to \$158.9 million.

As a result of these rate changes filed with FERC, SDG&E is revising its electric tariffs to include the revised RS and TRBAA rates. The revised decrease in TRBAA transmission rates, resulting from an additional \$17 million in the TRBAA, will partially offset some of the higher RS rates that will be billed October 1, 2004 through December 31, 2004. Changes have also been made to SDG&E's Electric Rule 1, Form 110-00432, and impacted rate schedules to reflect changes in term from "Reliability Must Run" to "Reliability Services."

Consistent with Commission Decision 04-02-057, SDG&E made a change to its commodity rates shown on Schedule EECC, "Electric Energy Commodity Cost," so that the total residential rates for usage up to 130% of baseline remain unchanged.

The combined impact to class average customer rates, from the RS increase and the TRBAA rate decrease, is as follows:

Class	Current Total Rate Effective 9/1/04 ¢/KwHr	Proposed Total Rate Effective 10/1/04 ¢/KwHr	Total Rate Change ¢/KwHr	Total Rate Change %
Residential *	14.355	14.953	0.598	4.16%
Small Commercial	17.221	17.424	0.203	1.18%
Med & Lrg Commercial	11.609	11.813	0.204	1.76%
Agriculture	15.386	15.589	0.203	1.32%
Lighting	18.036	18.254	0.217	1.20%
System TOTAL	13.474	13.761	0.287	2.13%

* The change in residential rates shown also reflects the effect of eliminating the one-month commodity rate credit in effect during September 2004 for usage up to 130% of baseline required by Resolution E-3869.

In its Advice Letter filing, SDG&E proposes to allocate its RS costs the same way as approved by the FERC's order applicable to Docket ER04-340-000. Consistent with that order, SDG&E allocated fixed RS costs to retail customers using a 12 coincident peak (12CP) methodology. For load information, SDG&E chose to use a ten-year average, rather than a five-year average more commonly used, because of the unstable nature of the energy market throughout California in the past few years. SDG&E's filing with FERC states, "*SDG&E chose to use a ten-year average to produce a more stable result.*"

As approved by FERC in Docket ER04-340-000, RS fixed costs are allocated using the 12CP methodology. Because the rate increase in this filing is solely related to energy costs, it is assigned and allocated on an energy basis. Based on this methodology, the medium – large retail customers would pay 48.84% of the RS revenue requirement; residential class customers would pay 37.71% of the RS revenue requirement, while small commercial class customers would pay 12.48% of it.

The medium – large retail customers receive a larger percentage increase in revenue requirement.

RS rates for the medium – large commercial retail customers reflect both a monthly demand charge as well as an energy charge. Because the proposed increase in overall RS costs is due to increased energy costs, the higher load factor of this class causes the revenue requirement rate increase for this class to be slightly higher than the other customer classes.

SDG&E seeks an interim rate increase due to actual 2004 RMR costs exceeding the forecasted amounts previously filed with FERC in December 2003.

In its July 14, 2004 filing with FERC, SDG&E stated, *“SDG&E seeks to increase its currently effective RMR rates to reflect unexpected under-collections and a sizeable increase in next year’s forecast. By capturing some of these costs in October of this year (2004), SDG&E can soften the impact of the sizeable Reliability Services rate increase SDG&E customers will face during the normal December 2004 true up.”*

After SDG&E made its RMR filing with FERC on December 24, 2003, Docket ER04-340-000, which went into effect January 1, 2004, one RMR owner in SDG&E’s service territory significantly changed its election under the contract in early 2004 for Condition 1 units. The RMR owner, who previously elected to sell about 30% of its energy over the contract path, is now selling about 80% over the contract path. This change, which is allowed by the RMR contract, results in a significant increase in RMR costs flowed through the ISO to SDG&E because SDG&E must make the RMR owner whole on energy costs dispatched for reliability purposes.

In early 2004, SDG&E’s monthly RMR costs were on average approximately 47% per month higher compared to what SDG&E forecast in its December 2003 filing with FERC. During the remainder of 2004, SDG&E expects their RMR costs will continue at this higher rate.

We concur with SDG&E’s approach to begin recovering these increased costs to mitigate the large cost increase that will occur if SDG&E files its normal in-cycle RS rates in December 2004, which would go into effect on January 1, 2005, instead of changing the rates now.

The revised RS and TRBAA revenue requirements requested in AL 1617-E and the rates underlying those revenue requirements are just and reasonable.

SDG&E has shown that its costs for RS have increased, and we approve the revenue requirement increase required to recover these costs. The method that SDG&E proposes to allocate those costs and the revised TRBAA revenue requirement to customer classes are reasonable.

Energy Division has reviewed the calculations supporting the rates required to collect the revised RS and TRBAA revenue requirements we authorize herein. Energy Division recommends that these rates be adopted. We approve these rates.

SDG&E should minimize reliance on RMR contracts in its service territory to alleviate congestion concerns.

Local reliability constraints in a utility's territory are typically managed through RMR contracts. Regarding reliance on RMR contracts, Decision (D). 04-07-028 states, *"It is our intention and desire to minimize the use of RMR contracts through IOU scheduling, procurement and comprehensive planning. The Commission believes that consumers are better served from both a cost and reliability perspective through a proactive planning, procurement and scheduling approach."*

We express concern over SDG&E's escalating RMR and RS costs. All the utilities, including SDG&E, are encouraged to aggressively and proactively assist the ISO to minimize short-term congestion concerns in their service territories and develop long-term strategies to improve market design and operation.

COMMENTS

Public Utilities Code section 311(g)(1) generally requires resolutions to be served on all parties and subject to at least 30 days public review and comment prior to a vote of the Commission. Section 311(g)(3) provides that this 30-day period may be reduced or waived pursuant to Commission adopted rule. This is an uncontested matter that grants the relief requested. Pursuant to Rule 77.7(f)(9) of the Commission's Rules of Practice and Procedure, the comment period is waived.

FINDINGS

1. SDG&E filed an out-of-cycle reliability services filing with the FERC on July 14, 2004 in Docket ER04-1017 to increase RS rates effective from October 1, 2004 through December 31, 2004.
2. SDG&E changed the name of its RMR rates to RS to recognize that in the future these rates will recover ISO's RMR costs, out of market costs, and must offer costs as reflected in Amendment 60 to the ISO tariff filed on May 11, 2004.
3. SDG&E filed with FERC on July 30, 2004 in Docket ER04-1078-000, an out-of-cycle TRBAA rate filing for rates effective October 1, 2004 through December 31, 2004.
4. SDG&E seeks an interim rate increase due to actual 2004 RMR costs exceeding the forecasted amounts previously filed with FERC in December 2003.
5. The revised TRBAA transmission rates will partially offset some of the higher RS rates that will be billed October 1, 2004 through December 31, 2004.
6. The CPUC is obligated to pass through FERC-authorized revenue requirements to SDG&E's applicable customers.
7. Consistent with Commission Decision 04-02-057, SDG&E made a change to its commodity rates so that the total residential rates for usage up to 130% of baseline remain unchanged.
8. SDG&E Advice Letter 1617-E is in accordance with SDG&E's FERC filing for revisions to its electric RS and TRBAA transmission rates.
9. The Commission finds these revenue requirements and the attendant rates are just and reasonable, and fully recoverable from SDG&E's applicable customers.
10. In accordance with SDG&E's filings with FERC, the revised TRBAA transmission and RS rates are effective October 1, 2004 through December 31, 2004.
11. SDG&E Advice Letter 1617-E was not protested.

THEREFORE IT IS ORDERED THAT:

1. The request of SDG&E, in its Advice Letter 1617-E, to revise electric TRBAA transmission and reliability services rates pursuant to FERC approval of these rates in Docket ER04-1078-000 and ER04-1017-000, respectively, is approved.
2. The rates filed in AL 1617-E shall be effective October 1, 2004.

This Resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed and adopted at a conference of the Public Utilities Commission of the State of California held on September 23, 2004; the following Commissioners voting favorably thereon:

STEVE LARSON
Executive Director

MICHAEL R. PEEVEY
PRESIDENT
CARL W. WOOD
LORETTA M. LYNCH
GEOFFREY F. BROWN
SUSAN P. KENNEDY
Commissioners

I reserve the right to join Commissioner
Lynch's concurrence.
/s/ CARL W. WOOD
Commissioner

I will file a concurrence.
/s/ LORETTA M. LYNCH
Commissioner